

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Center Line, Michigan</u>	County Macomb
Audit Date June 30, 2005	Opinion Date August 19, 2005	Date Accountant Report Submitted To State: December 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Center Line, Michigan**

---

**Financial Report  
with Supplemental Information  
June 30, 2005**

# City of Center Line, Michigan

---

## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-9
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11-12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Proprietary Funds - Enterprise Funds:	
Statement of Net Assets	17
Statement of Revenue, Expenses, and Changes in Fund Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds - Pension and Other Employee Benefit Trust Funds:	
Statement of Net Assets	20
Statement of Changes in Net Assets	21
Notes to Financial Statements	22-40
<b>Required Supplemental Information</b>	41
Budgetary Comparison Schedule - General Fund	42
Police and Fire Retirement System Schedules of Funding Progress and Employer Contributions	43-44

# City of Center Line, Michigan

---

## Contents (Continued)

<b>Other Supplemental Information</b>	45
Nonmajor Governmental Funds:	
Combining Balance Sheet	46-47
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	48-49
Fiduciary Funds - Pension and Other Employee Benefit Trust Funds:	
Combining Statement of Net Assets	50
Combining Statement of Changes in Net Assets	51



Plante & Moran, PLLC  
Suite 20C  
10 S. Main St.  
Mount Clemens, MI 48043  
Tel: 586.465.220C  
Fax: 586.469.0165  
plantemoran.com

## Independent Auditor's Report

To the City Council  
City of Center Line, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Center Line, Michigan (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Center Line, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Center Line, Michigan as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedule, and retirement system schedules of funding progress and employer contributions identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the City Council  
City of Center Line, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Center Line, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

August 19, 2005

# City of Center Line, Michigan

## Management's Discussion and Analysis

The City of Center Line, Michigan management's discussion and analysis (MD&A) is designed to provide an objective and easy-to-read analysis of the City's financial activities based on current information and facts. The MD&A is intended to serve as an introduction to the City's basic financial statements. Specifically, this information is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues.

This is the second year the City has presented its financial statements in accordance with the reporting model required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). This new reporting model significantly changes not only the presentation of financial data, but also the manner in which the information is recorded.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

### Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's financial health. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are divided into three categories:

- **Government Activities** - Most of the City's basic services are included here such as public safety, public works, recreation and library, and general administration.
- **Business-type Activities** - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system and its solid waste system are included here.
- **Component Units** - The City includes one other entity in its report, the Downtown Development Authority (DDA). Although legally separate, this "component unit" is important because the City is financially accountable for it.

# City of Center Line, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.
- **Proprietary Funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, offer short- and long-term financial information. In fact, the City's Enterprise Funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds** - Fiduciary funds provide information about resources held for the benefit of parties outside the government, such as the retirement plan for the City's public safety employees in which the City acts solely as a trustee or agent. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

### Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$15,500 from the prior year.
- Total net assets related to the City's governmental activities are \$4,606,104, with \$2,641,510 of that amount invested in capital assets, net of related debt.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$597,406, or 7.5 percent of total General Fund expenditures and transfers out.



# City of Center Line, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the City as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Center Line, assets of the governmental activities exceeded liabilities by \$4,606,104 at the close of the fiscal year ended June 30, 2005. The largest portion of the City's net assets (57.3 percent) reflects its investment in capital assets. The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Restricted net assets of the City's governmental activities totaled \$941,544 at June 30, 2005. These net assets have limits on their use that are externally imposed by restrictions such as enabling legislation or bond covenants. These resources can only be used for the specific purposes for which they were intended, such as expenditures for major and local streets, or debt service activities. The remaining unrestricted net assets may be used to meet the City's ongoing operations.

The designated fund balance in the General Fund at June 30, 2005 totals \$597,406 and is 18 percent less than the 2004 amount of \$728, 552. This difference is due to a decrease in fund balance for the year. The net assets invested in capital assets for the governmental activities as a percentage of total net assets for 2005 (57.3 percent) is higher than the same amount in 2004. The City's restricted net assets for the governmental activities have decreased slightly from \$998,806 in 2004 to \$941,544 this year.

The following table shows, in a condensed format, the net assets of the City as of June 30, 2005:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current and other assets	\$ 2,632,646	\$ 3,053,990	\$ 2,369,129	\$ 2,669,000	\$ 5,001,775	\$ 5,722,990
Noncurrent assets:						
Restricted assets	-	-	206,732	183,971	206,732	183,971
Capital assets	4,776,455	5,042,787	12,833,400	12,908,327	17,609,855	17,951,114
Total assets	7,409,101	8,096,777	15,409,261	15,761,298	22,818,362	23,858,075
<b>Liabilities</b>						
Current liabilities	553,040	760,695	400,392	519,328	953,432	1,280,023
Long-term liabilities	2,249,957	2,415,283	10,011,585	10,282,667	12,261,542	12,697,950
Total liabilities	2,802,997	3,175,978	10,411,977	10,801,995	13,214,974	13,977,973
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	2,641,510	2,737,787	2,821,815	2,625,660	5,463,325	5,363,447
Restricted	941,544	998,806	206,732	183,971	1,148,276	1,182,777
Unrestricted	1,023,050	1,184,206	1,968,737	2,149,672	2,991,787	3,333,878
Total net assets	<u>\$ 4,606,104</u>	<u>\$ 4,920,799</u>	<u>\$ 4,997,284</u>	<u>\$ 4,959,303</u>	<u>\$ 9,603,388</u>	<u>\$ 9,880,102</u>

# City of Center Line, Michigan

## Management's Discussion and Analysis (Continued)

As shown in Table 2 (changes in net assets), the City's total revenues were approximately \$9,989,000 for the current year, of which approximately 51 percent was obtained from property taxes. Fees charged for services accounted for another 29 percent of the total, with the balance of the City's revenues primarily being derived from state and federal sources. The total cost of all programs and services at June 30, 2005 was approximately \$10,266,000. City expenses cover a wide range of services. For the current fiscal year, about 47 percent of the City's expenses are related to public safety and public works.

Net assets decreased by \$314,695 for the City of Center Line's governmental activities while net assets for business-type activities increased by \$37,981 during the year. The majority of this increase for business-type activities is attributable to debt principal payments in the Water and Sewer Fund paid with a voter-approved property tax levy transferred from the General Fund.

The following analysis highlights the changes in net assets for the year ended June 30, 2005:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 832,999	\$ 745,864	\$ 2,071,955	\$ 1,981,724	\$ 2,904,954	\$ 2,727,588
Operating grants and contributions	601,235	640,391	-	-	601,235	640,391
Capital grants and contributions	88,767	91,273	-	-	88,767	91,273
General revenues:						
Property taxes	5,098,809	4,934,605	-	-	5,098,809	4,934,605
State-shared revenues	1,038,233	1,053,733	-	-	1,038,233	1,053,733
Cable franchise fees	74,591	93,565	-	-	74,591	93,565
Investment earnings	80,024	64,264	45,293	24,662	125,317	88,926
Miscellaneous	40,750	40,295	-	-	40,750	40,295
Income from joint venture	550	3,400	-	-	550	3,400
Transfers	(860,424)	(1,695,631)	860,424	1,695,631	-	-
Gain (loss) on sale of assets	15,600	20,852	-	(4,190)	15,600	16,662
Total revenue	7,011,134	5,992,611	2,977,672	3,697,827	9,988,806	9,690,438
<b>Program Expenses</b>						
General government	1,720,001	1,512,749	-	-	1,720,001	1,512,749
Public safety	3,460,329	3,293,355	-	-	3,460,329	3,293,355
Public works	1,407,486	1,390,908	-	-	1,407,486	1,390,908
Recreation and culture	686,449	695,452	-	-	686,449	695,452
Interest on long-term debt	51,564	236,830	-	-	51,564	236,830
Water and sewer	-	-	2,676,355	2,554,142	2,676,355	2,554,142
Solid waste disposal	-	-	263,336	276,684	263,336	276,684
Total program expenses	7,325,829	7,129,294	2,939,691	2,830,826	10,265,520	9,960,120
<b>Change in Net Assets</b>	<b>\$ (314,695)</b>	<b>\$ (1,136,683)</b>	<b>\$ 37,981</b>	<b>\$ 867,001</b>	<b>\$ (276,714)</b>	<b>\$ (269,682)</b>

# City of Center Line, Michigan

## Management's Discussion and Analysis (Continued)

### Financial Analysis of the City's Funds

The fund financial statements provide detailed information on the most significant governmental funds - not the City as a whole. The City of Center Line, Michigan uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as to show accountability for certain activities. The City's major governmental funds for fiscal year 2004-2005 include the General Fund and the Water and Sewer Fund.

The General Fund is the main operating fund of the City and accounts for most of the City's governmental services, the most significant of which includes public safety. Expenditures for public safety services incurred during the year totaled approximately \$3.3 million. The General Fund is primarily supported by property taxes (68 percent) and intergovernmental revenues (15 percent), which consist primarily of state-shared revenues. A measure of the General Fund's liquidity can be made by comparing unreserved fund balance and total fund balance to total fund expenditures. At year end, unreserved fund balance and total fund balance were 7.5 percent and 10.6 percent, respectively, of total General Fund expenditures including transfers out.

**Proprietary Funds** - In addition to governmental funds, the City uses proprietary funds, which provide similar types of information as that contained in the government-wide financial statements, but in more detail. The Water and Sewer Fund and Solid Waste Disposal Fund make up the City's proprietary funds. Unrestricted net assets of the proprietary funds were approximately \$1.9 million at year end. Of this amount, approximately \$1.5 million is attributable to the Water and Sewer Fund.

For fiscal year 2004-2005, a combined water/sewer rate increase of 4.7 percent was approved for the Water and Sewer Fund, resulting in the increase in charges for services. The rate increases were necessary to cover increased charges imposed by the Detroit water and sewerage department and increased City operating costs for water/sewer maintenance.

The Solid Waste Disposal Fund experienced a 6 percent increase in the user fee. This was directly attributed to a new contract with Allied and a new contract into which the member communities entered for the South Macomb Disposal Authority transfer station.

### General Fund Budgetary Highlights

The City amended its budget to account for events and changes that occurred during the course of the year. Increases to General Fund revenue were made as a result of an increase in interest earnings, an increase in revenues from the 37<sup>th</sup> District Court, and an increase in revenues for charges of services.

# **City of Center Line, Michigan**

---

## **Management's Discussion and Analysis (Continued)**

Differences in expenditures between the original budget and the amended budget were comprised of the following:

- Increase in appropriations to prevent budget overruns
- Health insurance increased costs
- Changes in salaries
- Audit fees
- Contractual services
- CDBG Grant projects

### **Capital Assets**

At June 30, 2005, the City had \$17,609,855 invested in a wide range of capital assets, including land, buildings, police and fire equipment, and the water and sewer utility system.

Significant capital asset activity during the year included the purchase of the sewer vactor in the water and sewer utility system totaling \$203,000. This improvement was financed through an installment purchase agreement. Purchase of the street sweeper in the governmental activities totaling \$113,000 was also financed through an installment purchase agreement.

### **Long-term Debt**

The City's total indebtedness as of June 30, 2005 is approximately \$12.1 million, excluding compensated absences. Of this amount, approximately \$5.2 million is for general obligation bonds, which is well below the debt limit of \$29,265,612. In addition, the City has installment purchase agreements for the 2004 sewer vactor in the amount of \$203,000, the 2004 street sweeper for \$113,000, and Special Assessment Bonds in the amount of \$595,000 for the Kramer Homes Sewer Improvement project.

The City of Center Line, Michigan maintains an "A3" rating from Moody's Investors Services on its unlimited tax debt and a "BBB+" rating from Standard & Poor's.

### **Economic Factors and Next Year's Budgets and Rates**

The development of the 2005-2006 budget was impacted by several factors. On the revenue side, the slow rebounding state economy is anticipated to save us from additional state revenue-sharing cuts, while investment income is expected to increase as a result of higher interest rates.

On the expenditures side, costs were expected to continue to escalate for health care and pension costs.

# **City of Center Line, Michigan**

---

## **Management's Discussion and Analysis (Continued)**

Next year's General Fund budget is expected to use \$100,000 of unreserved fund balance in order to meet its needs. Total fund balance in the General Fund at the end of the next fiscal year could drop below 10 percent of budgeted expenditures, which is the minimum established funding level goal set by the Council, if more will be needed to balance the budget. The City has also attempted to control the escalation of expenses by postponing or eliminating certain nonessential capital outlay requests and by freezing the filling of vacant positions.

The 2005-2006 tax rate for operating purposes remains the same as the previous year (14.663 mills). The debt millage rate has been increased by 0.9731 mills to 5.3261 mills due to the 2004 bond refinancing, while the police and fire pension millage has been increased 0.9968 mills to 3.2805 due to increases in benefits for public safety employees as a result of the union negotiating process. Overall, next year's tax rate increase is 1.9699 mills, from 21.2997 mills to 23.2696 mills.

### **Request for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the treasurer/finance director at the City of Center Line, 7070 E. Ten Mile Rd., Center Line, MI 48015.

# City of Center Line, Michigan

## Statement of Net Assets June 30, 2005

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 3)	\$ 1,394,505	\$ 1,768,453	\$ 3,162,958	\$ 429,007
Receivables - Net:				
Customers	-	591,271	591,271	-
Rehabilitation loans	39,377	-	39,377	-
Special assessments	607,054	-	607,054	-
Interest and other	16,259	9,405	25,664	-
State of Michigan	238,237	-	238,237	-
Investment in joint venture (Note 12)	87,450	-	87,450	-
Prepaid expenses	249,764	-	249,764	-
Restricted assets (Notes 8)	-	206,732	206,732	-
Capital assets - Net (Note 4):				
Assets not depreciated	1,445,365	-	1,445,365	-
Assets being depreciated	3,331,090	12,833,400	16,164,490	-
Total assets	7,409,101	15,409,261	22,818,362	429,007
<b>Liabilities</b>				
Accounts payable	246,832	290,379	537,211	-
Accrued and other liabilities	150,111	110,013	260,124	-
Property taxes collected in advance and refundable deposits	156,097	-	156,097	-
Deferred revenue (Note 6)	-	-	-	-
Noncurrent liabilities (Note 7):				
Due within one year	213,493	585,111	798,604	-
Due in more than one year	2,036,464	9,426,474	11,462,938	-
Total liabilities	2,802,997	10,411,977	13,214,974	-
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	2,641,510	2,821,815	5,463,325	-
Restricted:				
Streets	259,481	-	259,481	-
Capital projects	75,054	-	75,054	-
Debt service	607,009	-	607,009	-
Revenue bond ordinances	-	206,732	206,732	-
Unrestricted	1,023,050	1,968,737	2,991,787	429,007
Total net assets	\$ 4,606,104	\$ 4,997,284	\$ 9,603,388	\$ 429,007

# City of Center Line, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,720,001	\$ 638,317	\$ 98,381	\$ -
Public safety	3,460,329	134,108	28,583	-
Public works	1,407,486	2,241	461,611	88,767
Recreation and culture	686,449	58,333	12,660	-
Interest on long-term debt	51,564	-	-	-
Total governmental activities	7,325,829	832,999	601,235	88,767
Business-type activities:				
Water and sewer	2,676,355	1,788,449	-	-
Solid waste disposal	263,336	283,506	-	-
Total business-type activities	2,939,691	2,071,955	-	-
Total primary government	<u>\$ 10,265,520</u>	<u>\$ 2,904,954</u>	<u>\$ 601,235</u>	<u>\$ 88,767</u>
Component unit - Downtown Development Authority	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Cable franchise fees				
Investment earnings				
Miscellaneous				
Income from joint venture				
Gain on sale of assets				
Transfers				
Total general revenues and transfers				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit -
Governmental	Business-type	Total	Downtown
Activities	Activities		Development
			Authority
\$ (983,303)	\$ -	\$ (983,303)	\$ -
(3,297,638)	-	(3,297,638)	-
(854,867)	-	(854,867)	-
(615,456)	-	(615,456)	-
(51,564)	-	(51,564)	-
(5,802,828)	-	(5,802,828)	-
-	(887,906)	(887,906)	-
-	20,170	20,170	-
-	(867,736)	(867,736)	-
(5,802,828)	(867,736)	(6,670,564)	-
5,098,809	-	5,098,809	28,694
1,038,233	-	1,038,233	-
74,591	-	74,591	-
80,024	45,293	125,317	7,603
40,750	-	40,750	-
550	-	550	-
15,600	-	15,600	-
(860,424)	860,424	-	-
5,488,133	905,717	6,393,850	36,297
(314,695)	37,981	(276,714)	36,297
4,920,799	4,959,303	9,880,102	392,710
<b>\$ 4,606,104</b>	<b>\$ 4,997,284</b>	<b>\$ 9,603,388</b>	<b>\$ 429,007</b>



# City of Center Line, Michigan

## Governmental Funds Balance Sheet June 30, 2005

	Major Fund - General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 915,769	\$ 478,736	\$ 1,394,505
Receivables - Net:			
Property taxes	54,015	-	54,015
Rehabilitation loans	-	39,377	39,377
Special assessments	607,009	45	607,054
Interest and other	16,259	-	16,259
State of Michigan	199,156	39,081	238,237
Prepaid expenses	249,764	-	249,764
Total assets	<u>\$ 2,041,972</u>	<u>\$ 557,239</u>	<u>\$ 2,599,211</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 238,941	\$ 7,891	\$ 246,832
Accrued and other liabilities	139,330	-	139,330
Property taxes collected in advance and refundable deposits	156,097	-	156,097
Deferred revenue (Note 6)	660,434	39,422	699,856
Total liabilities	1,194,802	47,313	1,242,115
<b>Fund Balances</b>			
Reserved for prepaid expenses	249,764	-	249,764
Unreserved - Designated (Note 13)	597,406	-	597,406
Unreserved, reported in:			
Special Revenue Funds	-	434,872	434,872
Capital Projects Funds	-	75,054	75,054
Total fund balances	847,170	509,926	1,357,096
Total liabilities and fund balances	<u>\$ 2,041,972</u>	<u>\$ 557,239</u>	<u>\$ 2,599,211</u>

# City of Center Line, Michigan

---

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2005

<b>Total Fund Balances of Governmental Funds</b>	\$ 1,357,096
--	--------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	4,776,455
--	-----------

Investment in joint venture is not included as an asset in the governmental funds	87,450
---	--------

Receivables are expected to be collected over several years and are not available to pay for current year expenditures:	
Property taxes	38,546
Special assessments	607,295

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Notes and bonds payable	(2,134,945)
Compensated absences	(115,012)

Accrued interest payable is not included as a liability in the governmental funds	(10,781)
---	----------

<b>Net Assets of Governmental Activities</b>	<b><u>\$ 4,606,104</u></b>
--	----------------------------

# City of Center Line, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	Major Fund - General Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>			
Property taxes	\$ 5,255,859	\$ -	\$ 5,255,859
Intergovernmental revenue:			
Federal sources	126,964	-	126,964
State sources	1,042,448	461,611	1,504,059
Special assessments	86,756	2,011	88,767
Fees and charges	602,470	-	602,470
Licenses and permits	183,931	-	183,931
Interest income	75,621	4,403	80,024
Other	346,529	-	346,529
Total revenue	7,720,578	468,025	8,188,603
<b>Expenditures</b>			
General government:			
Legislative	13,422	-	13,422
District Court	351,093	-	351,093
City assessor	78,864	-	78,864
City manager - Clerk	615,051	-	615,051
City treasurer	234,590	-	234,590
Other general government	469,097	-	469,097
Administration	-	45,900	45,900
Public safety:			
Public safety department	3,178,681	-	3,178,681
Protective inspection	140,592	-	140,592
Public works - DPW and street maintenance	990,619	203,000	1,193,619
Recreation and culture:			
Recreation	317,136	-	317,136
Library	289,682	-	289,682
Debt service	357,754	-	357,754
Construction and capital outlay	-	236,022	236,022
Total expenditures	7,036,581	484,922	7,521,503
<b>Excess of Revenue Over (Under) Expenditures</b>	683,997	(16,897)	667,100
<b>Other Financing Sources (Uses)</b>			
Proceeds from installment note	113,494	-	113,494
Transfers in	-	118,788	118,788
Transfers out	(910,424)	(68,788)	(979,212)
Total other financing sources (uses)	(796,930)	50,000	(746,930)
<b>Net Changes in Fund Balances</b>	(112,933)	33,103	(79,830)
<b>Fund Balances - Beginning of year</b>	960,103	476,823	1,436,926
<b>Fund Balances - End of year</b>	<u>\$ 847,170</u>	<u>\$ 509,926</u>	<u>\$ 1,357,096</u>

# City of Center Line, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

**Net Change in Fund Balances of Governmental Funds** \$ (79,830)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$ (379,826)	
Capital outlay - Assets of governmental activities	<u>113,494</u>	(266,332)

Revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (157,050)

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 22,641

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 283,549

Proceeds from installment debt in revenue in the governmental funds, but not in the statement of activities (113,494)

Increase in accumulated employee sick and vacation pay are recorded when earned in the statement of activities (4,729)

Revenue from a joint venture reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds 550

**Change in Net Assets of Governmental Activities** \$ (314,695)

# City of Center Line, Michigan

## Proprietary Funds Enterprise Funds Statement of Net Assets June 30, 2005

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
<b>Assets</b>			
Current assets:			
Cash and investments (Note 3)	\$ 1,428,639	\$ 339,814	\$ 1,768,453
Receivables:			
Customers	486,390	104,881	591,271
Interest and other	9,405	-	9,405
Total current assets	1,924,434	444,695	2,369,129
Long-term assets:			
Restricted assets (Notes 8)	206,732	-	206,732
Capital assets - Net (Note 4)	12,833,400	-	12,833,400
Total long-term assets	13,040,132	-	13,040,132
Total assets	14,964,566	444,695	15,409,261
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	268,686	21,693	290,379
Accrued liabilities	110,013	-	110,013
Current portion of long-term debt (Note 7)	585,111	-	585,111
Total current liabilities	963,810	21,693	985,503
Long-term debt - Net of current portion (Note 7)	9,426,474	-	9,426,474
Total liabilities	10,390,284	21,693	10,411,977
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	2,821,815	-	2,821,815
Restricted - Revenue bond ordinances	206,732	-	206,732
Unrestricted	1,545,735	423,002	1,968,737
Total net assets	<u>\$ 4,574,282</u>	<u>\$ 423,002</u>	<u>\$ 4,997,284</u>

# City of Center Line, Michigan

## **Proprietary Funds** **Enterprise Funds** **Statement of Revenue, Expenses, and Changes in Net Assets** **Year Ended June 30, 2005**

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
<b>Operating Revenue</b>			
Water sales and sewage disposal revenue	\$ 1,788,449	\$ -	\$ 1,788,449
Solid waste disposal revenue	<u>-</u>	<u>283,506</u>	<u>283,506</u>
Total operating revenue	1,788,449	283,506	2,071,955
<b>Operating Expenses</b>			
Cost of water and sewage disposal	1,146,398	-	1,146,398
Cost of solid waste disposal	-	256,273	256,273
Salaries and fringe benefits	291,413	-	291,413
Utilities	19,468	-	19,468
Depreciation	277,926	-	277,926
Repairs and maintenance	429,493	-	429,493
Insurance	5,425	-	5,425
Office supplies	2,117	2,138	4,255
Professional services	5,000	1,875	6,875
Operating supplies	53,713	-	53,713
Rent	36,250	3,000	39,250
Vehicle expenses	3,334	-	3,334
Other	<u>7,927</u>	<u>50</u>	<u>7,977</u>
Total operating expenses	<u>2,278,464</u>	<u>263,336</u>	<u>2,541,800</u>
<b>Operating Income (Loss)</b>	(490,015)	20,170	(469,845)
<b>Nonoperating Revenue (Expenses)</b>			
Interest income	36,661	8,632	45,293
Interest expense	<u>(397,891)</u>	<u>-</u>	<u>(397,891)</u>
Total nonoperating revenue (expenses)	<u>(361,230)</u>	<u>8,632</u>	<u>(352,598)</u>
<b>Income (Loss) - Before transfers</b>	(851,245)	28,802	(822,443)
<b>Transfer In</b>	<u>860,424</u>	<u>-</u>	<u>860,424</u>
<b>Increase in Net Assets</b>	9,179	28,802	37,981
<b>Net Assets - Beginning of year</b>	<u>4,565,103</u>	<u>394,200</u>	<u>4,959,303</u>
<b>Net Assets - End of year</b>	<u><u>\$ 4,574,282</u></u>	<u><u>\$ 423,002</u></u>	<u><u>\$ 4,997,284</u></u>

# City of Center Line, Michigan

## Proprietary Funds Enterprise Funds Statement of Cash Flows Year Ended June 30, 2005

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 1,831,152	\$ 282,104	\$ 2,113,256
Payments to suppliers for water supply, sewage disposal, and solid waste disposal	(1,174,701)	(284,967)	(1,459,668)
Payments to other suppliers and employees	(923,141)	-	(923,141)
Net cash used in operating activities	(266,690)	(2,863)	(269,553)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Transfers from other funds	860,424	-	860,424
Purchase of capital assets	(203,000)	-	(203,000)
Proceeds from long-term debt	203,000	-	203,000
Principal and interest paid on long-term debt	(871,973)	-	(871,973)
Net cash used in capital and related financing activities	(11,549)	-	(11,549)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	29,462	8,632	38,094
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(248,777)	5,769	(243,008)
<b>Cash and Cash Equivalents</b> - Beginning of year	1,884,148	334,045	2,218,193
<b>Cash and Cash Equivalents</b> - End of year	<u>\$ 1,635,371</u>	<u>\$ 339,814</u>	<u>\$ 1,975,185</u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 1,428,639	\$ 339,814	\$ 1,768,453
Restricted assets	206,732	-	206,732
Total	<u>\$ 1,635,371</u>	<u>\$ 339,814</u>	<u>\$ 1,975,185</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>			
Operating income (loss)	\$ (490,015)	\$ 20,170	\$ (469,845)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	277,926	-	277,926
Changes in assets and liabilities:			
Receivables	42,703	(1,402)	41,301
Accounts payable and accrued liabilities	(97,304)	(21,631)	(118,935)
Net cash used in operating activities	<u>\$ (266,690)</u>	<u>\$ (2,863)</u>	<u>\$ (269,553)</u>

There were no significant noncash transactions during the year ended June 30, 2005.

# City of Center Line, Michigan

---

## **Fiduciary Funds Statement of Net Assets Pension and Other Employee Benefit Trust Funds June 30, 2005**

### **Assets**

Cash (Note 3)	\$ 622,833
Investments (Note 3):	
Common and preferred stock	7,520,098
Corporate bonds and notes	650,551
U.S. government securities	2,358,652
Interlocal agreement investment pools	46,190
Accrued interest receivable	<u>22,544</u>
Total assets	<u>11,220,868</u>

### **Net Assets**

Held in trust for pension benefits	11,174,678
Held in trust for retiree health care benefits	<u>46,190</u>
Total net assets	<u><u>\$ 11,220,868</u></u>



# City of Center Line, Michigan

## **Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2005**

### **Additions**

Investment income:	
Interest and dividends	\$ 182,281
Net appreciation in fair value of investments	258,491
Less investment expenses	<u>(106,912)</u>
Net investment income	333,860
Contributions:	
Employer	153,524
Employees	<u>145,251</u>
Total contributions	<u>298,775</u>
Total additions	632,635

### **Deductions**

Benefit payments	718,777
Insurance	13,648
Administrative expenses	<u>1,395</u>
Total deductions	<u>733,820</u>

**Net Decrease** (101,185)

### **Net Assets Held in Trust for Pension and Other Employee Benefits**

Beginning of year	<u>11,322,053</u>
End of year	<u><u>\$ 11,220,868</u></u>

# City of Center Line, Michigan

---

## Notes to Financial Statements June 30, 2005

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Center Line, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

#### **Reporting Entity**

The City is governed by an elected five-member council. The accompanying financial statements present the City and its discretely presented component unit, an entity for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City, although the City has the ability to impose its will over the entities.

**Discretely Presented Component Unit** - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Downtown Development Authority's governing body, consisting of 11 individuals, is selected by the City Council. In addition, the Downtown Development Authority's budget is subject to approval by the City Council.

The City has an Economic Development Corporation and a Building Authority; however, there was no financial activity during the year.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major governmental funds and major Enterprise Fund are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major Enterprise Fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund type:

**Pension and Other Employee Benefit Trust Funds** - The Pension and Other Employee Benefit Trust Funds account for the accumulation of resources for the payment of pension and retiree health care benefits to employees of the City.

#### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

**Property Tax Revenue** - Properties are assessed as of December 31 and the related taxes become a lien at that time. These taxes are billed on July 1 of the following year and are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

The 2004 taxable valuation (real and personal property) of the City totaled \$237,209,000, on which ad valorem taxes levied consisted of 14.663 mills for the City's operating purposes, 4.354 mills for debt service purposes, and 2.284 mills for the public safety retirement benefits. The ad valorem taxes generated \$3,478,000 for general operations, \$1,033,000 for debt retirement, and \$542,000 for public safety pension benefits. These amounts are recorded in the General Fund as tax revenue.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, utility systems, etc.) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Utility system	70 years
Land improvements	20 years
Buildings and improvements	50 years
Machinery and equipment	5 to 20 years

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when due for payment (generally for employee terminations as of year end).

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

# City of Center Line, Michigan

---

## Notes to Financial Statements June 30, 2005

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - The annual budget is prepared by the City administration and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end, and encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered spent when goods are received or services are rendered. During the year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

The city manager presents the preliminary budget to the Council in April and the final budget is legally adopted in June to commence on the first day of July.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - Transfers out from the General Fund exceeded appropriations by approximately \$860,000 during the year. This excess was offset by a positive variance in debt service expenditures and was the result of a difference in how debt service expenditures related to the General Obligation Water and Sewer Bonds were accounted for. The bond payments are funded through a property tax levy accounted for in the General Fund. The budget as adopted anticipated that the debt service expenditures would be reported in the General Fund; however, the tax monies were instead transferred to the Water and Sewer Fund where the debt service payments were accounted for.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

**State Construction Code Fees** - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2005 is as follows:

Cumulative shortfall - July 1, 2004		\$ (364,668)
Building permit revenue		81,517
Related expenditures:		
Direct costs	\$ 140,592	
Estimated indirect costs	<u>14,059</u>	
Total construction code expenditures		<u>154,651</u>
Excess of expenditures over revenue		<u>(73,134)</u>
Cumulative shortfall - June 30, 2005		<u>\$ (437,802)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with state law and management believes that the City's deposits and investments are in accordance with statutory authority.

The Police and Fire Retirement System Fund, Police and Fire Retiree Health Care Fund, and General Retiree Health Care Fund are also authorized to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, certain real estate investments, and certain other specified investment vehicles.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

The City has designated three banks for the deposit of its funds. The investment policy adopted by the board has authorized investments in accordance with Public Act 196 of 1997. The City's deposits are in accordance with statutory requirements.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$1,800,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Police and Fire Retirement System:		
U.S. government or agency bond or note	\$ 2,358,652	4.90 years
Corporate bonds	650,531	1.38 years



# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 1,383,889	AAA	S&P
U.S. government agency	2,277,000	AA-AAA	S&P
Corporate bonds	642,000	A-AAA	S&P

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 1,445,365	\$ -	\$ -	\$ 1,445,365
Capital assets being depreciated:				
Land improvements	654,546	-	-	654,546
Buildings and improvements	2,295,126	-	-	2,295,126
Machinery and equipment	3,895,544	113,494	(167,313)	4,176,351
Subtotal	6,845,216	113,494	(167,313)	7,126,023
Accumulated depreciation:				
Land improvements	324,038	27,923	-	351,961
Buildings and improvements	762,223	45,883	-	808,106
Machinery and equipment	2,161,533	306,020	(167,313)	2,634,866
Subtotal	3,247,794	379,826	(167,313)	3,794,933
Net capital assets being depreciated	3,597,422	(266,332)	-	3,331,090
Net capital assets	\$ 5,042,787	\$ (266,332)	\$ -	\$ 4,776,455

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets (Continued)

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
<b>Business-type Activities</b>				
Capital assets being depreciated:				
Utility system	\$ 14,309,128	\$ -	\$ -	\$ 14,309,128
Buildings and improvements	1,463,430	-	-	1,463,430
Machinery and equipment	459,893	203,000	-	662,893
Subtotal	16,232,451	203,000	-	16,435,451
Accumulated depreciation:				
Utility system	2,331,377	204,416	-	2,535,793
Buildings and improvements	587,240	35,637	-	622,877
Machinery and equipment	405,507	37,874	-	443,381
Subtotal	3,324,124	277,927	-	3,602,051
Net capital assets	<u>\$ 12,908,327</u>	<u>\$ (74,927)</u>	<u>\$ -</u>	<u>\$ 12,833,400</u>

Depreciation expense was charged to programs of the governmental activities as follows:

General government	\$ 68,118
Public safety	140,265
Public works	90,336
Recreation and culture	<u>81,107</u>
Total governmental activities	<u>\$ 379,826</u>

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers Out		
	Other Governmental		
	General Fund	Funds	Total
Transfers in:			
Water and Sewer Fund	\$ 860,424 (1)	\$ -	\$ 860,424
Other governmental funds	50,000 (3)	68,788 (2)	118,788
Total	<u>\$ 910,424</u>	<u>\$ 68,788</u>	<u>\$ 979,212</u>

- (1) Transfer of debt service tax revenues collected in the General Fund for retirement of Unlimited Tax General Obligation Water and Sewer Improvement Bonds reported in the Water and Sewer Enterprise Fund
- (2) Transfer of Act 51 revenue-sharing payments from the Major Streets Fund to the Local Streets Fund as permitted by State law
- (3) Transfer of discretionary funds to be used for the benefit of the City

### Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2005, the components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessment receivables	\$ 607,054	\$ -
Delinquent personal property tax receivables	53,425	-
Rehabilitation loan receivables	39,377	-
Total	<u>\$ 699,856</u>	<u>\$ -</u>

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. At June 30, 2005, there is \$607,294 of special assessments receivable in the future. In the event that a deficiency exists because unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Delinquent special assessments receivable at June 30, 2005 are not material. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term debt activity for governmental activities is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
Unlimited Tax General Obligation Bonds:							
1996 Municipal Building Bonds:							
Amount of issue - \$2,000,000							
Maturing through 2016	6.30%	\$85,000	\$ 85,000	\$ -	\$ 85,000	* \$ -	\$ -
2004 Refunding Bonds:							
Amount of issue - \$1,490,000	2.00%-	\$40,764-					
Maturing through 2020	3.80%	\$127,915	1,490,000	-	40,762	1,449,238	85,705
Special Assessment Bonds:							
2002 Kramer Homes Bonds:							
Amount of issue - \$800,000	3.45%-						
Maturing through 2012	4.35%	\$85,000	680,000	-	85,000	595,000	85,000
Installment purchase agreements:							
2000 Fire Truck:							
Amount of issue - \$205,000							
Maturing through 2005	5.40%	\$50,000	50,000	-	50,000	-	-
2005 Street Sweeper							
Amount of issue - \$113,494							
Maturing through 2009	3.65%	\$22,788	-	113,494	22,787	90,707	22,788
Accumulated compensated absences			110,283	4,729	-	115,012	20,000
Total governmental activities			\$ 2,415,283	\$ 118,223	\$ 283,549	\$ 2,249,957	\$ 213,493

\* Portion of bonds outstanding was advance refunded during 2004.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 7 - Long-term Debt (Continued)

Long-term debt activity for business-type activities is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>							
Revenue Bonds:							
1991 Water and Sewer Bonds:							
Amount of issue - \$285,000	7.10%-	\$15,000-					
Maturing through 2011	7.25%	\$25,000	\$ 165,000	\$ -	\$ 15,000	\$ 150,000	\$ 15,000
1998 Water and Sewer Bonds:							
Amount of issue - \$995,000							
Maturing through 2018	5.00%	\$50,000	50,000	-	50,000 *	-	-
1998B Water and Sewer Bonds:							
Amount of issue - \$3,600,000	3.95%-	\$100,000					
Maturing through 2019	6.00%	\$375,000	3,350,000	-	100,000	3,250,000	100,000
2000 Water and Sewer Bonds:							
Amount of issue - \$3,000,000	5.20%-	\$75,000-					
Maturing through 2020	6.00%	\$325,000	325,000	-	75,000 *	250,000	75,000
2002 Water and Sewer Fund Bonds:							
Amount of issue - \$2,405,000	4.50%-	\$55,000					
Maturing through 2020	6.50%	\$275,000	2,355,000	-	50,000	2,305,000	55,000
2002 Kramer Homes Water and Sewer Bonds:							
Amount of issue - \$800,000	3.45%-	\$75,000					
Maturing through 2012	4.35%	\$100,000	680,000	-	70,000	610,000	80,000
2004 Refunding Bonds:							
Amount of issue - \$3,810,000	2.00%-	\$104,236-					
Maturing through 2020	3.80%	\$327,085	3,810,000	-	104,238	3,705,762	219,600
Less - Unamortized deferred charges			(452,333)	-	(30,667)	(421,666)	
Installment purchase agreement - 2005 Sewer Vactor							
Amount of issue - \$203,000							
Maturing through 2009	3.65%	\$40,511	-	203,000	40,511	162,489	40,511
Total business-type activities			<u>\$ 10,282,667</u>	<u>\$ 203,000</u>	<u>\$ 474,082</u>	<u>\$ 10,011,585</u>	<u>\$ 585,111</u>

\* Portion of bonds outstanding was advance refunded during 2004.

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 193,493	\$ 67,128	\$ 260,621	\$ 585,111	\$ 428,507	\$ 1,013,618
2007	165,187	62,021	227,208	538,110	385,957	924,067
2008	166,587	56,967	223,554	621,710	383,076	1,004,786
2009	199,678	51,169	250,847	593,320	358,185	951,505
2010	173,200	44,894	218,094	566,800	311,977	878,777
2011-2015	709,000	143,906	856,906	3,531,000	1,181,608	4,712,608
2016-2020	527,800	44,631	572,431	4,007,200	407,891	4,415,091
Total	<u>\$ 2,134,945</u>	<u>\$ 470,716</u>	<u>\$ 2,605,661</u>	<u>\$ 10,443,251</u>	<u>\$ 3,457,201</u>	<u>\$ 13,900,452</u>

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 7 - Long-term Debt (Continued)

#### Defeased Debt

In a prior year, the City defeased an Unlimited Tax General Obligation Bond reported in the governmental and business-type activities by placing surplus cash in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bond are not included in the governmental and business-type activities statement of net assets. At June 30, 2005, \$1,395,000 and \$3,175,000, respectively, of bonds outstanding are considered defeased.

### Note 8 - Restricted Assets

In accordance with revenue bond provisions, assets of the Water and Sewer Fund have been restricted for the funding of required reserves. The following is a summary of restricted assets at June 30, 2005:

Revenue bond requirements:	
Operation and maintenance	\$ 166,712
Bond reserve	29,500
Debt service:	
Principal	4,270
Interest	<u>6,250</u>
Total requirements	<u>\$ 206,732</u>

Net assets at June 30, 2005 have been restricted for the amount of the required reserves.

### Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Risk Pool for claims relating to property loss, torts, errors and omissions, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **Note 9 - Risk Management (Continued)**

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

### **Note 10 - Defined Benefit Pension Plans**

#### **City of Center Line Police and Fire Retirement System**

##### **Plan Description**

The City of Center Line Police and Fire Retirement System (the "System") is the administrator of a single-employer defined benefit pension plan that covers public safety employees of the City. The System provides retirement, death, disability, and health benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of 35 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 26 current active employees. The plan does not issue a separate financial report.

##### **Contributions**

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System was established by City ordinances and State statute (P.A. 345) and requires a contribution of 9.25 percent of compensation from employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 10 - Defined Benefit Pension Plans (Continued)

#### Annual Pension Cost

For the year ended June 30, 2005, the City's annual pension cost was \$153,524, which was equal to the actual and required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003 using the entry age actuarial funding method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.5 percent to 7.5 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is 17 years.

#### Reserves

At June 30, 2005, the plan's legally required reserves consists of the following:

Reserve for employees' contributions	\$ 1,620,334
Reserve for retiree benefit payments	-

#### Three-year Trend Information

	Fiscal Year Ended June 30		
	2003	2004	2005
Annual pension cost (APC)	\$ -	\$ 5,516	\$ 153,524
Percentage of APC contributed	-	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

### Municipal Employees' Retirement System of Michigan

#### Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for municipalities throughout the state of Michigan. The system covers substantially all City employees except for those in the public safety department. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries.



### Note 10 - Defined Benefit Pension Plans (Continued)

The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

#### Funding Policy

The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's contractual bargaining units and requires a contribution from covered employees ranging from 3 percent to 5 percent of gross wages.

#### Annual Pension Cost

For the year ended June 30, 2005, the City's annual pension cost of \$155,724 was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.4 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 25 years.

#### Three-year Trend Information

	Fiscal Year Ended June 30		
	2005	2004	2003
Annual pension cost (APC)	\$ 155,724	\$ 68,928	\$ 39,872
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 10 - Defined Benefit Pension Plans (Continued)

#### Schedule of Funding Progress

	Actuarial Valuation as of December 31		
	2004	2003	2002
Actuarial value of assets	\$ 6,199,444	\$ 6,223,556	\$ 6,096,223
Actuarial accrued liability (AAL)			
(entry age)	\$ 7,606,829	\$ 7,564,089	\$ 7,028,102
Unfunded AAL (UAAL)	\$ 1,407,385	\$ 1,340,533	\$ 931,879
Funded ratio	81.5%	82.3%	86.7%
Covered payroll	\$ 1,211,000	\$ 1,249,000	\$ 1,371,000
UAAL as a percentage of covered payroll	116.2%	107.3%	68.0%

### Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 70 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$784,000.

The Governmental Accounting Standards Board has recently issued Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new standard will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

# City of Center Line, Michigan

## Notes to Financial Statements June 30, 2005

### Note 12 - Joint Ventures

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Eastpointe, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The City's equity interest in the Authority's operating reserve totaling \$87,450 is recorded within the governmental activities column of the statement of net assets. As of the date of this report, the Authority has reserves totaling approximately \$7,500,000 that have been designated for self-insurance activities; the participating communities' equity interest in the insurance reserve is not determinable. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan.

The City is also a member of the 37th District Court, State of Michigan, which provides services to the residents of the cities of Center Line and Warren. As of the most recent financial statements available, the District Court has no equity. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Complete financial statements for the 37th District Court, State of Michigan can be obtained from the administrative offices at 8300 Common Road, Warren, Michigan.

### Note 13 - Designated Fund Balance

Fund balance in the General Fund has been designated for the following purposes:

Subsequent year's budget	\$ 100,000
Accumulated compensated absences	100,000
Capital expenditures	<u>397,406</u>
Total	<u>\$ 597,406</u>

### **Note 14 - Contingency**

The City has entered into an administrative consent order with the Michigan Department of Environmental Quality regarding sanitary sewer overflows that have occurred within the City. According to the provisions of the order, the City is required to continue a corrective action plan, including the evaluation of its storm and sanitary sewer systems, to eliminate future overflows.

The City has complied with all requirements and deadlines to date as set forth in the administrative consent order. The final nature of these and other improvements, including the estimated cost and sources of funding, is not known at this time.

## **Required Supplemental Information**

---

# City of Center Line, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 5,006,120	\$ 5,273,414	\$ 5,255,859	\$ (17,555)
Intergovernmental revenue:				
Federal sources	155,000	138,100	126,964	(11,136)
State sources	1,147,000	1,050,648	1,042,448	(8,200)
Special assessments	86,760	86,760	86,756	(4)
Fees and charges	439,500	602,652	602,470	(182)
Licenses and permits	137,100	186,820	183,931	(2,889)
Interest income	60,000	69,500	75,621	6,121
Other	382,150	327,702	346,529	18,827
<b>Total revenue</b>	<b>7,413,630</b>	<b>7,735,596</b>	<b>7,720,578</b>	<b>(15,018)</b>
<b>Expenditures</b>				
General government:				
Legislative	12,680	12,670	13,422	(752)
District Court	339,010	370,420	351,093	19,327
City assessor	77,640	76,490	78,864	(2,374)
City manager - Clerk	535,070	572,276	615,051	(42,775)
City treasurer	202,840	226,820	234,590	(7,770)
Other general government	514,190	459,710	469,097	(9,387)
Public safety:				
Public safety department	2,902,220	3,190,516	3,178,681	11,835
Protective inspection	119,490	136,143	140,592	(4,449)
Public works - DPW and street maintenance	851,820	899,894	990,619	(90,725)
Recreation and culture:				
Recreation	348,250	302,768	317,136	(14,368)
Library	297,100	315,760	289,682	26,078
Debt service	1,213,320	1,198,200	357,754	840,446
<b>Total expenditures</b>	<b>7,413,630</b>	<b>7,761,667</b>	<b>7,036,581</b>	<b>725,086</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>-</b>	<b>(26,071)</b>	<b>683,997</b>	<b>710,068</b>
<b>Other Financing Sources (Uses)</b>				
Proceeds from installment note	-	-	113,494	113,494
Transfers out	-	(50,000)	(910,424)	(860,424)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(50,000)</b>	<b>(796,930)</b>	<b>(746,930)</b>
<b>Net Change in Fund Balances</b>	<b>-</b>	<b>(76,071)</b>	<b>(112,933)</b>	<b>(36,862)</b>
<b>Fund Balances - Beginning of year</b>	<b>960,103</b>	<b>960,103</b>	<b>960,103</b>	<b>-</b>
<b>Fund Balances - End of year</b>	<b>\$ 960,103</b>	<b>\$ 884,032</b>	<b>\$ 847,170</b>	<b>\$ (36,862)</b>

# City of Center Line, Michigan

## Retirement System Required Supplemental Information Police and Fire Retirement System Schedule of Funding Progress June 30, 2005

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio (Percent)	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/99	\$ 12,414,437	\$ 9,940,916	\$ (2,473,521)	124.9	\$ 1,339,886	-
6/30/00	13,303,718	10,129,813	(3,173,905)	131.3	1,406,451	-
6/30/01	13,953,545	10,461,274	(3,492,271)	133.4	1,503,401	-
6/30/02	13,374,923	10,602,669	(2,772,254)	126.1	1,501,053	-
6/30/03	12,579,542	11,465,738	(1,113,804)	109.7	1,543,963	-
6/30/04	11,856,552	12,696,037	839,485	93.4	1,736,562	48.3

# City of Center Line, Michigan

## Retirement System Required Supplemental Information Police and Fire Retirement System Schedule of Employer Contributions June 30, 2005

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2000	\$ 65,750	100.0
2001	26,168	100.0
2002	-	-
2003	-	-
2004	5,516	100.0
2005	153,524	100.0

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of June 30, 2004, the date of the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Remaining amortization period	17 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.50%
Projected salary increases*	4.50%-7.50%
Cost of living adjustments	None
*Includes inflation at	4.50%



## **Other Supplemental Information**

---

# City of Center Line, Michigan

Special Revenue Funds			
	Major Streets	Local Streets	Total Special Revenue Funds
<b>Assets</b>			
Cash and investments	\$ 153,824	\$ 74,467	\$ 175,391
Receivables - Net:			
Rehabilitation loans	-	-	39,377
Special assessments	-	-	-
State of Michigan	27,887	11,194	-
	<u>27,887</u>	<u>11,194</u>	<u>39,081</u>
Total assets	<u>\$ 181,711</u>	<u>\$ 85,661</u>	<u>\$ 214,768</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 4,477	\$ 3,414	\$ -
Deferred revenue	-	-	39,377
	<u>4,477</u>	<u>3,414</u>	<u>39,377</u>
Total liabilities	4,477	3,414	39,377
<b>Fund Balances</b> - Unreserved and undesignated	<u>177,234</u>	<u>82,247</u>	<u>175,391</u>
Total liabilities and fund balances	<u>\$ 181,711</u>	<u>\$ 85,661</u>	<u>\$ 214,768</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005**

Capital Projects Funds				Total
Capital Equipment	Construction	Kramer Homes Bond Construction	Total Capital Projects Funds	Nonmajor Governmental Funds
\$ 26,956	\$ 7,448	\$ 40,650	\$ 75,054	\$ 478,736
-	-	-	-	39,377
45	-	-	45	45
-	-	-	-	39,081
<u>\$ 27,001</u>	<u>\$ 7,448</u>	<u>\$ 40,650</u>	<u>\$ 75,099</u>	<u>\$ 557,239</u>
\$ -	\$ -	\$ -	\$ -	\$ 7,891
45	-	-	45	39,422
45	-	-	45	47,313
26,956	7,448	40,650	75,054	509,926
<u>\$ 27,001</u>	<u>\$ 7,448</u>	<u>\$ 40,650</u>	<u>\$ 75,099</u>	<u>\$ 557,239</u>

# City of Center Line, Michigan

	Special Revenue Funds			
	Major Streets	Local Streets	Rehabilitation	Total Special Revenue Funds
<b>Revenue</b>				
State sources	\$ 329,409	\$ 132,202	\$ -	\$ 461,611
Special assessments	-	-	-	-
Interest income	122	121	3,324	3,567
Total revenue	329,531	132,323	3,324	465,178
<b>Expenditures</b>				
General government - Administration	32,800	13,100	-	45,900
Public works - Street maintenance	90,403	112,597	-	203,000
Capital outlay	-	-	-	-
Total expenditures	123,203	125,697	-	248,900
<b>Excess of Revenue Over (Under) Expenditures</b>	206,328	6,626	3,324	216,278
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	68,788	-	68,788
Transfers out	(68,788)	-	-	(68,788)
Total other financing sources (uses)	(68,788)	68,788	-	-
<b>Net Change in Fund Balances</b>	137,540	75,414	3,324	216,278
<b>Fund Balances - Beginning of year</b>	39,694	6,833	172,067	218,594
<b>Fund Balances - End of year</b>	<u>\$ 177,234</u>	<u>\$ 82,247</u>	<u>\$ 175,391</u>	<u>\$ 434,872</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2005**

Capital Projects Funds				Total
Capital Equipment	Construction	Kramer Homes Bond Construction	Total Capital Projects Funds	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 461,611
2,011	-	-	2,011	2,011
-	708	128	836	4,403
2,011	708	128	2,847	468,025
-	-	-	-	45,900
-	-	-	-	203,000
27,590	208,301	131	236,022	236,022
27,590	208,301	131	236,022	484,922
(25,579)	(207,593)	(3)	(233,175)	(16,897)
50,000	-	-	50,000	118,788
-	-	-	-	(68,788)
50,000	-	-	50,000	50,000
24,421	(207,593)	(3)	(183,175)	33,103
2,535	215,041	40,653	258,229	476,823
<u>\$ 26,956</u>	<u>\$ 7,448</u>	<u>\$ 40,650</u>	<u>\$ 75,054</u>	<u>\$ 509,926</u>

# City of Center Line, Michigan

## Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds June 30, 2005

	Police and Fire Retirement System	Police and Fire Retiree Health Care	General Retiree Health Care	Total
<b>Assets</b>				
Cash	\$ 622,833	\$ -	\$ -	\$ 622,833
Investments:				
Common and preferred stocks	7,520,098	-	-	7,520,098
Corporate bonds and notes	650,551	-	-	650,551
U.S. government securities	2,358,652	-	-	2,358,652
Interlocal agreement investment pools	-	30,804	15,386	46,190
Accrued interest receivable	22,544	-	-	22,544
 Total assets	 11,174,678	 30,804	 15,386	 11,220,868
<b>Net Assets</b>				
Held in trust for pension benefits	11,174,678	-	-	11,174,678
Held in trust for retiree health care benefits	-	30,804	15,386	46,190
 Total net assets	 <u>\$ 11,174,678</u>	 <u>\$ 30,804</u>	 <u>\$ 15,386</u>	 <u>\$ 11,220,868</u>

# City of Center Line, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2005

	Police and Fire Retirement System	Police and Fire Retiree Health Care	General Retiree Health Care	Total
<b>Additions</b>				
Investment income:				
Interest and dividends	\$ 181,404	\$ 586	\$ 291	\$ 182,281
Net realized and unrealized gain on investments	258,491	-	-	258,491
Less investment expenses	(106,912)	-	-	(106,912)
Net investment income	332,983	586	291	333,860
Contributions:				
Employer	153,524	-	-	153,524
Employees	145,251	-	-	145,251
Total contributions	298,775	-	-	298,775
Total additions	631,758	586	291	632,635
<b>Deductions</b>				
Benefit payments	718,777	-	-	718,777
Insurance	13,648	-	-	13,648
Administrative expenses	1,395	-	-	1,395
Total deductions	733,820	-	-	733,820
<b>Net (Decrease) Increase</b>	(102,062)	586	291	(101,185)
<b>Net Assets Held in Trust for Pension and Other Employee Benefits</b>				
Beginning of year	11,276,740	30,218	15,095	11,322,053
End of year	<u>\$ 11,174,678</u>	<u>\$ 30,804</u>	<u>\$ 15,386</u>	<u>\$ 11,220,868</u>

August 19, 2005

Honorable Mayor and  
Members of the City Council  
City of Center Line  
7070 Ten Mile Road  
Center Line, MI 48015

Dear Mayor and Members of the City Council:

We have recently completed our audit of the financial statements of the City of Center Line for the year ended June 30, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

#### **OVERVIEW OF THE CITY'S FINANCIAL CONDITION**

During the year ended June 30, 2005, General Fund expenditures exceeded revenues by approximately \$113,000 taking into account transfers to other funds. Fund balance at June 30, 2005 amounted to approximately \$847,000. Of this amount, \$250,000 is reserved for prepaid expenses and \$597,000 is designated for the 2005-2006 budget, capital expenditures, and other purposes.

During the 2004-2005 fiscal year, the City experienced only modest growth in property tax revenue and a reduction in State revenue sharing sources (as discussed below), however, many City departments were near budgeted expenditures. In comparison with the 2005-2006 budget, fund balance at June 30, 2005 is approximately \$37,000 lower than anticipated.

The City continues to be faced with budgetary challenges. Many challenges, including further reductions in state shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded post-employment benefit obligations, are characteristics of the City and its physical framework. We encourage the City Council and administration to continue to closely monitor the budget to ensure that fund balance reserves are adequate to enable the City to meet financial challenges without affecting the level of services provided to citizens or the City's ability to fund future obligations.

#### **STATE SHARED REVENUE**

The budget for the State of Michigan's 2005-2006 fiscal year provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which equals the fiscal year 2004-2005 funding level. As such, no further reductions to revenue sharing below the current funding level have been proposed.



While it is good news that revenue sharing will be maintained at current levels, continued caution should be exercised when preparing and monitoring the City's budget. It is important to note that sales tax revenue would support an increase to total state shared revenue payments for fiscal years 2004-2005 and 2005-2006 of over \$500 million based on the formulas provided for in law and actual sales tax collections. This fact highlights the structural deficits in the State's General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As you are aware, State shared revenue accounts for approximately 13 percent of the City's total General Fund budget and is comprised of a constitutional and statutory portion. The table below details state shared revenue for the City over the past five years and projected funding levels for 2006, including the total decrease in state shared revenue experienced by the City since the 1999-2000 fiscal year:

<u>Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$891,033	\$611,847	\$1,502,880	\$ -
2001	911,214	553,595	1,464,809	38,071
2002	710,420	559,233	1,269,653	233,227
2003	602,176	568,702	1,170,878	332,002
2004	489,806	562,524	1,052,330	450,550
2005	464,911	575,949	1,040,860	462,020
2006	444,411	596,449	1,040,860	462,020

If the State were to consider additional cuts to revenue sharing, the City is potentially at risk for the amount of statutory revenue sharing (the constitutional portion cannot be modified without a change to the State's constitution). We will continue to update the City as developments occur with revenue sharing and the State's budget. In addition, updated information can be obtained from the State's website or by calling the Office of Revenue and Tax Analysis at 517.373.2697.

#### **TRANSPORTATION FUNDING**

The State of Michigan has indicated that it anticipates transportation related tax receipts to be approximately 3 to 4 percent lower than expected for the State's 2004-2005 fiscal year ending September 30, 2005. The lower tax receipts will likely result in reduced Act 51 revenue sharing payments for the City's Major and Local Streets Funds. Because of the difference in the City's and the State's fiscal years, the reduced Act 51 payments may also have an impact on the City's 2005-2006 fiscal year. We will keep the City informed as updated information is received from the Michigan Department of Treasury.

## **TAX REFORM**

One of the centerpieces of the Governor's 2005-2006 proposed budget was significant reform of the Michigan Single Business Tax. The Governor's business tax reform proposal appeared to spare local governments from any negative impact of the changes and actually contained a provision to address a loophole in property tax assessments related to commercial property (the WPW Case). As of this date, there is no consensus in Lansing on the Governor's tax proposal and alternative proposals are being discussed in the Legislature. Therefore, the impact on local government from these potential changes cannot be determined. A key component to most of the tax restructuring proposals is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals such as who determines the property that qualifies for credit, how will local governments be reimbursed by the State for the lost tax revenue as is the stated intention, etc. Debate on these tax restructuring proposals will continue over the next several months.

The loophole involving the inconsistent treatment of the assessment of commercial property is commonly referred to as the "WPW Case" involving the City of Troy. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This method of assessing commercial property (known as the "occupancy method") has been used by assessors to give commercial property owners a break when occupancy of their property has decreased and then to restore the taxable value of the property consistent with previous levels when occupancy increases. There are two bills that have passed in the House (House Bills 5096 and 5097) that address this matter.

## **FUNDING OF POST-EMPLOYMENT BENEFIT OBLIGATIONS**

As you are aware, the City provides post-employment benefits to retirees that are funded currently from the General Fund and the Police and Fire Retirement System. For the year ended June 30, 2005, the cost of these benefits amounted to approximately \$784,000 representing an increase of approximately 11 percent over the 2004 amount. The City has experienced post-employment health care cost increases of 10 to 20 percent over the past several years and this annual cost is expected to grow as the average age of the City's workforce and the number of former employees eligible for post-employment benefits increases.

The City has established the Police and Fire Retiree Health Care Fund and the General Retiree Health Care Fund to begin to set aside resources to fund these obligations. This fund was established in accordance with The Public Employee Health Act of 1999 (P.A. 149 of 1999) which allows communities to invest assets set aside for post-employment benefit obligations in the same investment vehicles as pension funds (e.g., stocks, bonds, etc.). These investments provide a better means of achieving rates of return necessary to fund these long-term liabilities. As a reminder, for funds established in accordance with P.A. 149 of 1999, withdrawals from the fund are restricted solely for the payment of health care benefits and administrative expenses and an actuarial study is required every five years if the fund is not established on an actuarial basis.

Honorable Mayor and  
Members of the City Council  
City of Center Line

-4-

August 19, 2005

We recommend that the City begin to evaluate the post-employment benefit obligations on an actuarial basis, similar to pension obligations. Current accounting pronouncements do not require accounting for post-employment on an actuarial basis. The Governmental Accounting Standards Board, however, has recently issued a pronouncement (Statement No. 45) that includes provisions for measuring post-employment benefit liabilities and expenses on an actuarial basis. While this new standard will not need to be implemented by the City until the 2010 fiscal year, actuarial funding generally provides the best mechanism for funding obligations over long time periods and multiple budget cycles and we recommend that the City consider the benefits of this funding mechanism prior to implementing GASB statement No. 45.

We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**

A handwritten signature in black ink that reads "David V. Grubb". The signature is written in a cursive style with a large, stylized "D" and "G".

David V. Grubb